

Message Text

CONFIDENTIAL

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 6174

C O N F I D E N T I A L PARIS 32960

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PASS ASST. SECRETARY ROGERS FROM FISHLOW

E.O. 11652: GDS

TAGS: ENRG, EGEN, VE

SUBJECT: VENEZUELAN PETROLEUM NATIONALIZATION

1. I REPEAT HERE THE MEMORANDUM, CLEARED BY SCHWEBEL, I PREPARED FOR THE SECRETARY PRIOR TO HIS DEPARTURE THIS AFTERNOON. YOU WILL PROBABLY WANT TO HAVE SOMETHING FOR HIS ARRIVAL TOMORROW THAT RELATES THIS NEW DEVELOPMENT TO THE ONGOING DISCUSSION CONCERNING RESERVATION OF RIGHTS. IT SEEMED USEFUL TO BE RESPONSIVE HERE WITH THE BRIEF CONSENSUS STATEMENT.

2. BEGIN TEXT OF MEMORANDUM:

PEREZ GUERRERO IN YESTERDAY'S BILATERAL RAISED THE ISSUE OF ONEROUS PRIVATE COMPANY DEMANDS REGARDING OFF-TAKE PRICE FOR PETROLEUM AS A POTENTIAL IRRITANT TO US-VENEZUELA RELATIONS. AT YOUR REQUEST I AM UPDATING THE STATE OF PLAY.

3. THE EARLIER PHASE OF NATIONALIZATION NEGOTIATIONS FOCUSED ON LEVEL OF LUMP SUM COMPENSATION FOR COMPANY ASSETS PLUS TERMS OF ON-GOING CONTRACTUAL RELATIONS. CONTINUING OPERATIONS ON FAVORABLE TERMS PROVIDES ADDITIONAL INCOME TO THE COMPANIES AND MAKES NATIONALIZATION

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TIONAL INCOME TO THE COMPANIES AND MAKES NATIONALIZATION

MORE PALATABLE. THIS PHASE HAS APPARENTLY BEEN CONCLUDED. ALL THE COMPANIES EXCEPT TWO (SPECIAL CASES) HAVE ACQUIESCED IN THE AMOUNT OF COMPENSATION AND ARE WORKING OUT THE ADDITIONAL SERVICE FEE PER BARREL.

4. THE ISSUE NOW, WITH APPARENT DEADLINE YESTERDAY, IS THE BASE PRICE FOR PETROLEUM SET BY THE VENEZUELAN GOVERNMENT. THE COMPANIES CONTEND THE PRICE IS TOO HIGH, BY ANYWHERE FROM 20 CENTS TO ONE DOLLAR, AND THEY CONSEQUENTLY CANNOT SELL AS MUCH PETROLEUM AS THE VENEZUELANS HAVE IN THE PAST, AND WISH TO CONTINUE TO DO. THE GOV ARGUES THE OFFERED PRICE IS FIRM, AND CANNOT BE RETRACTED. THE COMPANIES INSIST ON A TRADE-OFF BETWEEN PRICE AND VOLUME, AND HAVE INDICATED THEY WILL EXPORT NO MORE THAN 1.3 MILLION BARRELS/DAY IN THE FIRST QUARTER OF 1976 COMPARED TO THE CURRENT 2 MILLION LEVEL. THIS WILL CONSIDERABLY REDUCE THE RESOURCES AT THE DISPOSITION OF THE GOVERNMENT.

5. YESTERDAY, PRESIDENT CARLOS ANDRES PEREZ INVITED AMBASSADOR SHLAUDEMANN FOR BREAKFAST. THE PRESIDENT INDICATED HE COULD NOT SHAKE THE OFFERED PRICE BECAUSE OF POLITICAL PRESSURES, AND HAD PREPARED A SPEECH FOR THE JANUARY 1 NATIONALIZATION CEREMONIES RESPONDING TO PRESSURE FROM THE TRANSNATIONALS. HE ALSO INDICATED BELIEF THAT THIS MIGHT BE A MOVE SUPPORTED BY THE USG AGAINST OPEC - A LOGICAL SOURCE FOR SUCH A VIEW BEING PEREZ GUERRERO.

6. THE VENEZUELANS SEEM PREPARED TO ACCEPT PRODUCTION REDUCTIONS RATHER THAN CUT PRICES. THEY MAY EVEN SEEK TO RALLY SUPPORT AT THE OPEC MEETING TO BE HELD IN A FEW DAYS. THE GOV SEEMS TO WANT US TO INTERVENE TO PERSUADE THE COMPANIES TO ACCEPT PRESENT TERMS. SUCH A POSTURE WOULD IGNORE THE REALITY OF THE MARKET PLACE. AMBASSADOR SHLAUDEMANN SUGGESTS WE SHOULD STAY OUT. THIS IS A MATTER FOR VENEZUELA AND THE COMPANIES TO WORK OUT. THE USG CANNOT USEFULLY DECIDE WHAT IS PROFITABLE FOR THE COMPANIES. WE MAY HAVE TO MAKE CLEAR TO THE VENEZUELANS THAT WE DO NOT THINK WE CAN CONSTRUCTIVELY INTERVENE ON THE MATTER OF PETROLEUM
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PRICE. THERE IS STILL THE CHANCE THAT BOTH SIDES CAN FIND A MUTUALLY BENEFICIAL AND FACE-SAVING COMPROMISE.
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